

Message Text

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BRUSSELS FOR USEC

FOL MADRID 1765 SENT ACTION SECSTATE INFO PARIS FEB 17, 1978
REPEATED TO YOU QUOTE

C O N F I D E N T I A L MADRID 01765

USOECD

E.O. 11652:GDS

TAGS: ECON, EINV, SP

SUBJ: RATIONALIZATION OF SPANISH BASIC STEEL INDUSTRY
EXPECTED TO INCLUDE INCREASED GOVERNMENT PARTICIPATION

1. SUMMARY: LOW DEMAND HAS CAUSED THE BASIC STEEL
INDUSTRY OF SPAIN TO SUFFER SUBSTANTIAL LOSSES,
CAUSING ONE PRIVATELY-OWNED INTEGRATED PLANT (PARTIALLY
OWNED BY U.S. STEEL) TO ASK THAT IT BE NATIONALIZED.
A HIGH-LEVEL GOS COMMISSION IS STUDYING THE RATIONALI-
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ZATION OF THE INDUSTRY AND THE APPROPRIATE COURSE OF
ACTION VIS-A-VIS THE INTEGRATED PLANT. AN INCREASED
GOVERNMENT ROLE IN THE PLANT IS PROBABLE, ALTHOUGH
ECONOMIC AND POLITICAL FACTORS MAY PRECLUDE NATIONALI-
ZATION AT THIS TIME. END SUMMARY.

2. THE THREE INTEGRATED PLANTS COMPRISING THE BASIC

STEEL INDUSTRY IN SPAIN SUFFERED SUBSTANTIAL OPERATING LOSSES IN 1977. FURTHER SUBSTANTIAL LOSSES ARE EXPECTED IN 1978 AND PROBABLY IN 1979.

3. ONE OF THE THREE, EMPRESA NACIONAL SIDERURGICA, S.A. (ENSIDESA), IS A GOVERNMENT ENTITY, BEING 88.7 PERCENT OWNED BY THE INSTITUTO NACIONAL DE INDUSTRIA (INI), THE GOVERNMENT HOLDING COMPANY. THE OTHER TWO, ALTOS HORNOS DE VIZCAYA, S.A. (AHV) (IN WHICH U.S. STEEL HOLDS A 27 PERCENT INTEREST) AND ALTOS HORNOS DEL MEDITERRANEO, S.A. (AHM) (46.2 PERCENT HELD BY AHV AND 15 PERCENT HELD BY U.S. STEEL DIRECTLY), ARE PRIVATE COMPANIES.

4. FROM CONVERSATIONS WITH THE MINISTRY OF INDUSTRY, WITH INI, WITH ALTOS HORNOS AND WITH U.S. STEEL, IT APPEARS THAT AHV WILL BE ABLE TO OVERCOME PRESENT ECONOMIC PROBLEMS BUT IT ALSO SEEMS CLEAR THAT AHM, AS PRESENTLY CONSTITUTED, IS NOT ECONOMICALLY VIABLE GIVEN THE UNFAVORABLE DEMAND PROJECTIONS FOR THE INDUSTRY. THEREFORE, THE STOCKHOLDERS ARE ASKING THAT AHM BE NATIONALIZED. AN ALTERNATIVE WOULD BE A DECLARATION OF BANKRUPTCY AND CLOSING OF THE PLANT, BUT THIS IS LESS DESIRABLE FROM THE STOCKHOLDERS' POINT OF VIEW AND IS NOT ACCEPTABLE TO THE GOS FOR A NUMBER OF REASONS.
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5. A HIGH-LEVEL GOVERNMENT COMMISSION HAS BEEN CONSTITUTED AND IS PRESENTLY CONSIDERING HOW TO RATIONALIZE THE BASIC STEEL INDUSTRY IN SPAIN IN ORDER TO ASSURE, IF POSSIBLE, ITS ECONOMIC VIABILITY OVER THE LONG TERM, GIVEN THE REDUCED LEVEL OF DOMESTIC DEMAND PROJECTED THROUGH THE MEDIUM TERM, THE GRADUAL SHIFT OF SPAIN TO A MORE OPEN, COMPETITIVE ECONOMY, AND SPAIN'S EVENTUAL ENTRY INTO THE EEC. MAINTENANCE OF A VIABLE BASIC STEEL INDUSTRY WITH CAPACITY AND PRODUCT MIX DESIGNED TO MEET NINETY PERCENT OF ITS DOMESTIC DEMAND, IS CONSIDERED BY SPAIN TO BE IN ITS NATIONAL INTEREST. IT IS NOT NOW ENVISAGED THAT THE RATIONALIZED STEEL INDUSTRY WOULD ATTEMPT TO EXPORT, EXCEPT marginally.

6. WE UNDERSTAND THAT THREE COURSES OF ACTION ARE BEING CONSIDERED BY THE GOS WITH RESPECT TO AHM: NATIONALIZATION (UNDER WHICH THE DETERMINATION OF VALUE IS CAREFULLY CONTROLLED BY LAW AND WHICH WOULD BE EXPECTED TO PROVIDE THE GREATEST RETURN TO AHM SHAREHOLDERS); INTERVENTION (A FORM OF BENEFICIAL RECEIVERSHIP FOR ONE YEAR FOLLOWING A DECLARATION

OF SUSPENSION OF PAYMENTS BY THE FIRM, AFTER WHICH THE GOVERNMENT WOULD EITHER RETURN THE FIRM IF VIABLE TO THE ORIGINAL OWNERS, NATIONALIZE THE FIRM OR ACQUIRE THE FIRM); OR ACQUISITION (SIMPLE PURCHASE OF CONTROLLING SHARES BY GOS AT SOME NEGOTIATED VALUE).

7. THE GOS IS UNDER PRESSURE TO DECIDE ITS COURSE OF ACTION BEFORE MARCH 1 SINCE AHM CLAIMS THAT IT DOES NOT HAVE CASH TO COVER OPERATING EXPENSES BEYOND FEBRUARY 28 AND CANNOT OBTAIN ADDITIONAL FUNDS FROM ITS STOCKHOLDERS. IN ADDITION, THE AHM BOARD IS SCHEDULED TO MEET FEBRUARY 22 ON THE SUBJECT.

8. COMMENT: WHILE AHM HOPES FOR NATIONALIZATION, IT IS CONFIDENTIAL

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NOT CONFIDENT THAT THIS WILL OCCUR AT THIS TIME SINCE NATIONALIZATION, WHICH WOULD PROVIDE THE GREATEST RETURN TO A FOREIGN MULTINATIONAL, COULD BE OFFENSIVE TO THE PSOE. BEYOND THIS, IT COULD BE THAT THE GOS WOULD NOT, OR COULD NOT, FOR BUDGETARY REASONS, COMMIT FOR THIS PURPOSE THE AMOUNT OF FUNDS WHICH NATIONALIZATION IMPLIES. FURTHERMORE, THE ATTENDANT PUBLICITY PRESUMABLY WOULD HAVE AN ADVERSE EFFECT ON POTENTIAL INVESTORS, NOTWITHSTANDING THE FACT THAT AHM ITSELF IS REQUESTING NATIONALIZATION. ALTERNATIVELY, INTERVENTION WOULD PROVIDE A TWELVE-MONTH PERIOD TO SORT THINGS OUT, DURING WHICH THE LABOR UNION ELECTIONS WOULD BE COMPLETED, A NEW CONSTITUTION APPROVED AND MUNICIPAL AND PERHAPS EVEN NATIONAL ELECTIONS HELD WITHOUT THE ADDITIONAL COMPLICATION OF THE NATIONALIZATION ISSUE. THE TECHNICAL SECRETARY GENERAL OF THE MINISTRY OF INDUSTRY AND ENERGY (EDUARDO PUNSET) TOLD EMBOFFS FEBRUARY 15 HE BELIEVED THE GOS WOULD DECIDE TO FOLLOW THE INTERVENTION ROUTE WHICH WOULD AVOID THE UNDESIRABLE ASPECTS OF NATIONALIZATION OR THE COSTS OF IMMEDIATE ACQUISITION WHILE PROVIDING THE GOVERNMENT TIME TO ASSESS THE PROBLEMS OF AHM AND ITS LONGER-TERM VIABILITY. WE EXPECT THE GOS TO TREAT EQUITABLY WITH AHM SHAREHOLDERS. IT HAS A MAJOR INTEREST IN AVOIDING, TO THE EXTENT POSSIBLE, ANY ACTION THAT WOULD ADVERSELY AFFECT THE INVESTMENT CLIMATE. BUT THIS DOES NOT MEAN IT WILL NECESSARILY AGREE TO BAIL OUT A PRIVATE COMPANY BY PROCEDURES WHICH WOULD BE EXPENSIVE AND WOULD HAVE OTHER IMPLICATIONS WHICH THE GOVERNMENT CONSIDERS UNDESIRABLE. STABLER UNQUOTE VANCE

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